



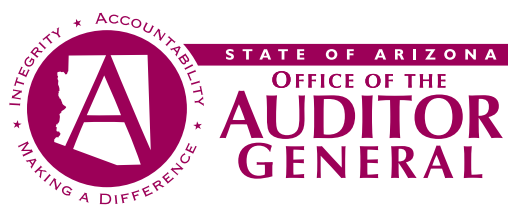
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Snowflake Unified School District No. 5

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 21, 2004

Governing Board
Snowflake Unified School District No. 5
682 School Bus Lane
Snowflake, AZ 85937

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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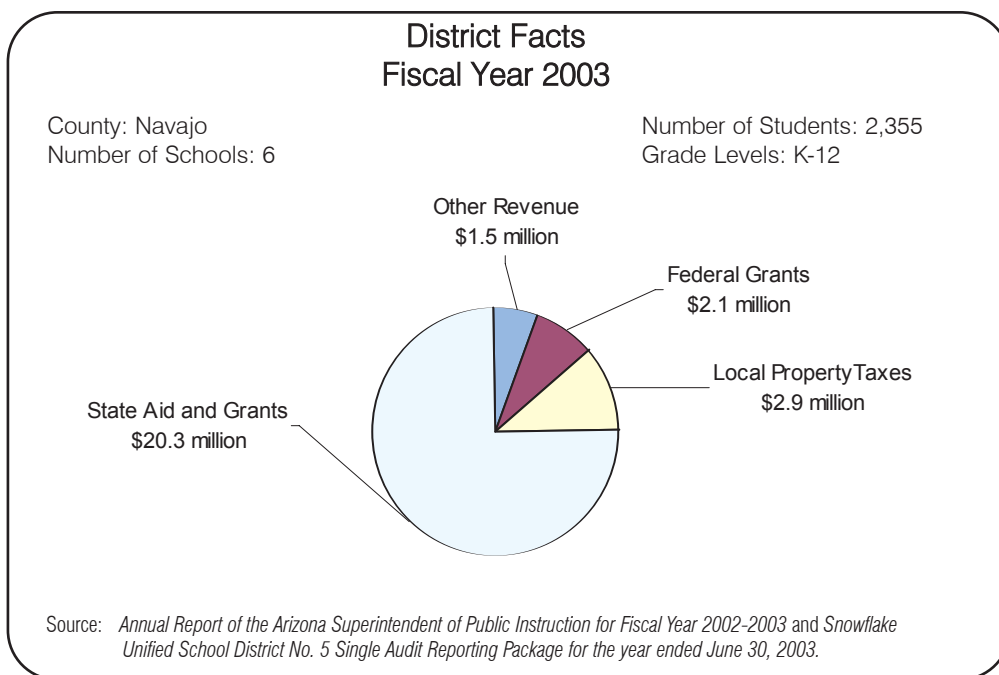
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INTRODUCTION

Snowflake Unified School District No. 5 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$26 million it received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District may not have received the best value for the public monies it spent, as competitive purchasing requirements were not always followed.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. Specifically, the District did not always issue invitations for bids for purchases that exceeded the competitive sealed bid threshold. In addition, when it did issue invitations for bids, the District did not always maintain a prospective bidders list, advertise the invitation for bids in a local newspaper, or specify that the bids would be made available for public inspection. Furthermore, the District did not retain the date- and time-stamped bid envelopes and documentation to support that it selected the lowest responsive bidder.

Also, the District used competitive sealed proposals without obtaining written determinations from the Governing Board that using proposals would be either more practicable or advantageous to the the District than using competitive sealed bids. In addition, the District did not always retain documentation supporting that the public notice of the request for proposals was given at least 14 days prior to bid opening. Finally, the District did not obtain oral or written price quotations for all purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,899.
- Obtain written determinations from the Governing Board, when applicable, that the use of competitive sealed bids is either not practicable or not advantageous to the District before using competitive sealed proposals.
- Maintain a prospective bidders list and advertise the invitation for bids or request for proposals in a local newspaper when four or fewer vendors are on the District's prospective bidders list.
- Retain documentation to support that adequate public notice of the invitation for bids or request for proposals was given.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

- Include a statement in the invitation for bids or request for proposals that submitted bids/proposals will be made available for public inspection following the award of the contract.
- Store bids unopened until bid opening and retain the time- and date-stamped bid envelopes.
- Retain documentation to support that the contract was awarded to the lowest responsive bidder.
- Obtain oral price quotations from at least three vendors for purchases that are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

The District should ensure its accounting records are accurate

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly recorded and authorized. However, the District did not fully accomplish this objective. Specifically, the District spent monies from the Maintenance and Operation and Soft Capital Allocation Funds for items that were not appropriate for these funds. Also, the District miscoded federal grant revenues and made \$53,000 in transfers between funds that were not authorized by Arizona Revised Statutes. Additionally, the District did not ensure that journal entries were reviewed and approved prior to posting them in the accounting records.

The District did not ensure that monies were always used for the intended purposes.

Further, the District reported expenditures on its Annual Financial Report (AFR) that did not always agree to expenditures in its accounting records. Finally, the District did not always retain documentation to support all costs recorded on its supplies inventory list.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

USFR §III provides guidance for classifying financial transactions and provides a list of authorized transfers.

- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Transfer monies between funds only when specifically authorized by statute.
- Require a supervisor to review and approve each journal entry before they are posted to the accounting records. Each journal entry should contain the signature or initials of the supervisor who approved it.
- Require a second employee to verify that amounts reported on the AFR agree with the accounting records before it is submitted to the County School Superintendent and ADE.
- Retain supporting records to document costs recorded on its supplies inventory list.

The District's controls over capital assets should be strengthened

The District did not maintain a complete and accurate stewardship list and had not taken a physical inventory of capital assets in the last 3 years.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly accounted for. However, the District's stewardship list did not include all required information, items on the list could not always be located on the District's premises, and items on the District's premises were not always included on the list. Further, the District had not performed a physical inventory of its capital assets in the last 3 years and did not follow the *Arizona Administrative Code* when disposing of surplus property.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure accurate and complete capital assets and stewardship lists:

- Include all required information for all items on the stewardship list.
- Update the stewardship list for items acquired, disposed of, moved, or stolen at least annually.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile physical inventory results to the capital assets and stewardship lists, and add items to or remove items from the lists as necessary.

The stewardship list should include the item's description, identification/tag number, location, and month and year of acquisition.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

- Ensure that the *Arizona Administrative Code* R7-2-1131 requirements are followed when disposing of assets.

The District should strengthen controls over budget preparation and monitoring

The District's Governing Board is required to adopt an expenditure budget each year to inform parents and district taxpayers how it will spend the monies it receives. In addition, the expenditure budget should provide accurate information to the agencies from which the District receives funding. The District is also responsible for spending monies in accordance with the approved expenditure budget.

However, the District did not accomplish these objectives. For example, the District did not properly carry forward Classroom Site Fund budget balances from the prior fiscal year. Also, the District exceeded its expenditure budget limit in the Adjacent Ways Fund. Further, the District included ineligible students on its Transportation Route Report and in calculating its District's transportation funding on its expenditure budget.

Recommendations

To help ensure that monies are properly budgeted and controlled, the District should:

- Ensure the unexpended budget balances in the Classroom Site Funds are carried forward to the following year's budget.
- Verify that sufficient budget capacity is available before authorizing expenditures from budget-controlled funds.
- Include only elementary school students whose place of residence is more than 1 mile from the school of attendance and high school students whose place of residence is more than 1 1/2 miles from the school of attendance as eligible students on its Transportation Route Report.